



Sovereign Sustainability Reporting – NSW and Beyond

Why and how governments should disclose
their Environmental, Social and Governance
impact

Dr Angela Cummine

30 January 2023

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Acknowledgment of Country

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About the author

Dr Angela Cummine is JMI's inaugural Senior Policy Fellow. She joined the Institute from July to August 2022, on temporary leave from her role as Director, Sustainable Finance at NSW Treasury.

Angela joined NSW Treasury in 2018 having led the cross-government team that designed and established the NSW Generations Fund (NGF), today a \$14 billion sovereign wealth fund, as one of the central pillars of the 2018 State Budget. Angela's sustainable finance role involves driving a coordinated and strategic approach to sustainability risks and opportunities that impact the State's balance sheet, including climate and Environmental, Social and Governance (ESG) risks.

Angela received her doctorate in political philosophy from University of Oxford, on a Rhodes Scholarship. Her book, *Citizens' Wealth*, published by Yale University Press, won the 2017 Choice Award for Outstanding Academic Title. Her research as a British Academy Postdoctoral Fellow at the University of Oxford was rated as internationally leading in the UK's 2021 Research Excellence Framework.

Angela has published her research in both peer reviewed and media outlets, and advised a range of government, international and financial institutions on citizen-centric sovereign fund design, and public wealth governance. She holds a M.Phil in Political Theory from University of Oxford, BA LLB from Sydney University (First Class Honours) and a Statement of Attainment from Western Sydney University in climate risk management.

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Executive summary

The sustainability impact of government financial activities is of intensifying interest to financial market participants, regulators and communities. **Governments – as investors, issuers, regulators, procurers and owners – are under growing pressure to become more sustainable financial entities.** Legal and accounting standards are evolving to require disclosure of climate and other sustainability risks, as well as evidence of feasible action to support targets and commitments. At the same time, stakeholders such as investors, rating agencies and communities, increasingly expect a consistent whole-of-government (WoG) approach to Environmental, Social and Governance (ESG) risks and opportunities.

Governments – as investors, issuers, regulators, procurers and owners – are under growing pressure to become more sustainable financial entities.

Against this backdrop, this ‘At a Glance’ report considers in brief, and a full accompanying report examines in depth, whether sovereigns should report and disclose on sustainability-related actions and if so, how. Public sector sustainability reporting is in its infancy. Reporting is time-consuming and costly and if it seeks to serve too many masters, it can end up serving none. The sustainability sector is under increasing scrutiny with concerns about greenwashing, where ESG credentials can be exaggerated for marketing purposes. In this climate, the role of governments has come into focus – should they simply regulate the private sector and legislate to entrench a common set of reporting standards for the market, or should they also publicly report and disclose their own sustainability impacts? **This report argues that sovereigns should be producing a WoG sustainability report and making sustainability disclosures at the WoG level.** That is, governments should produce a singular, aggregated view of the sustainability impacts of their public sector and the jurisdiction over which it is sovereign. Given the growing demand for meaningful, reliable sustainability data from financial, political, industry and community stakeholders, **proactive public reporting on sustainability actions could help governments protect their sovereign credit ratings, borrowing capacity, public wealth returns and social license with communities.**

This WoG level reporting can supplement individual agency or department level sustainability reporting where it exists. At a minimum, this would include an integrated view of the sustainability impact of a government’s own operations on the community it serves and may extend to include a state-wide view on certain topics. For instance, understanding a state’s climate risk exposure will be a more meaningful indicator of a sovereign’s exposure to physical and transition risk than a narrowly focussed analysis on public sector climate risk. A state-wide view would also recognise the interconnectedness of many sustainability issues. New

international standards have recognised that climate risk must include discussion of just transition and nature.

Yet, **little precedent exists for public sector entities on standardised best practice sustainability reporting and disclosure.** Of a multitude of frameworks available for sustainability reporting, very few deal exclusively with the public sector – although that is set to change. Of the existing standards, most cover the private sector. In Australia, there is currently no national approach to sustainability reporting for the private or public sector. This has led to a proliferation of approaches by individual Australian governments and industry bodies on a wide range of sustainability reporting topics.

Crucially, **2022 has witnessed rapid evolution in sustainability reporting and disclosure practice guidance.**¹ Bodies like the International Financial Reporting Standards (IFRS) Foundation's newly established International Standards Sustainability Board (ISSB) and the Taskforce on Climate-Related Financial Disclosures (TCFD) have moved to develop globally accepted standards for climate-related reporting and other sustainability topics. These initiatives are private sector-led and focussed. While they may offer some guidance to sovereigns, they are explicitly corporate-oriented in their focus, terminology and content.

“Proactive public reporting on sustainability actions could help governments protect their sovereign credit ratings, borrowing capacity, public wealth returns and social license with communities.”

The International Public Sector Accounting Standards Board (IPSASB) has also launched a consultation process on the development of global public sector specific sustainability reporting guidance and confirmed it will pilot the development of a dedicated sustainability reporting framework for the public sector. While a welcome development for sovereigns, many jurisdictions, including Australia, do not follow the existing IPSASB international public sector accounting standards. This will leave many governments, including state-level governments like NSW, without a customised and clear approach for how to meet the specific needs of their unique stakeholder universe.

This report addresses that gap by suggesting practical steps and proposing a draft template for the NSW Government – and other Australian governments – to commence sustainability reporting and disclosure. The report's recommendations are addressed to the NSW Government, although they are largely applicable to other Australian governments, and sovereigns abroad. Where necessary, Australia-wide recommendations are identified.

Part 1 of the report considers this preliminary question of why governments should report and disclose on sustainability. It examines the distinct drivers for public sectors to be transparent about their sustainability impact and how they are managing those risks and leveraging opportunities. Part 2 turns to the “how” question. **The report recommends the NSW Government initially target financial market stakeholders through their sustainability reports, with NSW Treasury coordinating the product on a WoG basis.** After a review of the state of public sector sustainability reporting, and emerging guidance at the international and domestic level, the report proposes a template for Australian governments looking to commence sustainability reporting. The proposed template recommends a double materiality approach, whereby the NSW Government reflects ESG impacts on its financial performance and service delivery, as well as accounts for its influence on sustainability matters.

Particular focus is given to the appropriate objective, scope, content and form of state-level reports, using Queensland and Western Australia’s inaugural sustainability and ESG reports as a case study. In 2021, Queensland and WA became the first Australian jurisdictions to release dedicated sustainability/ESG reports for financial market stakeholders, providing a basis for reflecting on appropriate ESG content and structure for sub-national government reporting. In December 2022, Queensland released a second *Queensland Sustainability Report* (QSR) which commenced alignment with international standards in the areas of governance, strategy, risk management, and metrics and targets. The QSR 2022 offers a helpful example of performance-based WoG reporting against an established baseline.

This report recommends that NSW and other Australian governments similarly commence whole-of-government sustainability reporting, with sequenced disclosures, building up maturity and data over time. In doing so, NSW should be ambitious by moving beyond the pure policy mapping seen in peer inaugural reports and aim to produce a baseline for ESG performance that embraces a double materiality approach against which outcomes can be tracked over time.

Key findings

1) Guidance for government² sustainability reporting must be customised to reflect the public sector's distinct roles and unique stakeholder universe

Governments act in financial markets, as investors, borrowers and rated entities, and achieve policy outcomes on behalf of their communities. In pursuing these ends, public sector entities have sustainability impacts through their own operations, by pursuing policy objectives, and as a regulator, standard-setter and market signaller. This broad range of roles distinguishes sovereigns from corporates and entails a larger universe of potential stakeholders. Financial market participants (investors and rating agencies) use different metrics and criteria to evaluate the ESG performance of a sovereign as opposed to private sector entities. Moreover, some frameworks for sustainability reporting focus on corporate concepts, such as “enterprise value”, that do not easily translate to a public sector context. Indeed, the breadth of sovereign accountability obligations beyond shareholders “will result in a different focus in the sustainability-related information users want from a public sector entity”.³ Accordingly, governments require a customised reporting and disclosure approach to meaningfully address sovereign sustainability risks and opportunities.

2) Australian governments should commence sustainability reporting and disclosure as soon as feasible, initially targeting financial market stakeholders, and build maturity gradually

International standards for sustainability reporting and disclosures are evolving rapidly, with multiple consultation processes underway, including for the public sector.⁴ In Australia, the Financial Reporting Council (FRC), the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) published a Position Statement in November 2021 announcing the AASB’s intention to develop a reporting requirements framework for sustainability-related matters in Australia and the AUASB’s intention to update relevant assurance standards simultaneously. The AASB and AUASB have indicated that Australia-specific sustainability guidance for the public sector will follow guidance for the private sector.⁵

Governments (national and state/territory) should not delay sustainability reporting while these processes resolve given the urgent stakeholder demand and potentially material consequences of failing to communicate action on ESG issues. Indeed, sovereigns should identify and communicate their ESG risks, opportunities and management approaches to help mitigate negative funding impacts, attract investment for pressing transition and social needs, and build capacity to support growing reporting, transparency and disclosure expectations.

Initial reporting content should align as much as practicable with emerging norms in the standard-setting processes of the ISSB, IPSASB and the AASB, with each jurisdiction prioritising content for inaugural reports in consultation with their key stakeholders. This will allow public sector entities to gradually build reporting and disclosure maturity, consistent with the ISSB's intention that IFRS Sustainability Disclosure Standards serve as "a minimum set of requirements upon which jurisdictions can build".⁶

Inaugural and early whole-of-government sustainability reports should target financial market stakeholders, with governments devising a comprehensive reporting strategy to meet the needs of the broader stakeholder universe over time. This reflects the multiple levels of reporting that entities can undertake to address materiality (financial, societal) issues relevant to distinct stakeholders (See Figure 1). This is also consistent with the "building block" approach recommended by the International Federation of Accountants (IFAC) which advocates for investor-focused reporting in the first stage and then multi-stakeholder reporting once more mature. In the public sector, this could entail using distinct reporting products (e.g., intergenerational reports, agency annual reports), and formats (e.g., web-based communications that can be updated more regularly than annual reports) as opposed to broadening the objective and scope of the dedicated WoG sustainability report given the breadth and complexity of the stakeholder universe. The risk with the latter approach is in seeking to serve many stakeholders with distinct needs and objectives, a singular report serves none.

3) Sovereigns should prepare and publish a whole-of-government sustainability report through their treasuries, in close coordination with financing authorities

Investors in sovereign debt and ratings agencies are increasingly focused on issuer-level performance on ESG risks and issues. Investors have shifted emphasis from assets to issuers, broadening assessment to the issuer's total profile. As sustainability lending and ESG methodologies in ratings agencies mature, governments are increasingly expected to articulate a coordinated WoG approach to ESG issues.

Much sustainability reporting and activity to date adopted a "climate first" approach, with the dominant interest from investors in the "E" dimension of ESG. This is now shifting as investors want to see credible track records across E, S and G. In addition, recent announcements by the ISSB emphasise the interconnected nature of sustainability matters; recognise that climate action is reliant on nature, biodiversity and a just transition; and identify priority projects for future sustainability standards covering (1) biodiversity, ecosystems and ecosystem services; (2) human capital; and (3) human rights.⁷

All of these issues are crucial to the public sector. Accordingly, sovereigns are less able to point to individual assets – such as green or sustainable bonds – to establish credibility with investors, or individual programs and spending commitments to tackle chronic issues like climate change and intergenerational poverty. Instead,

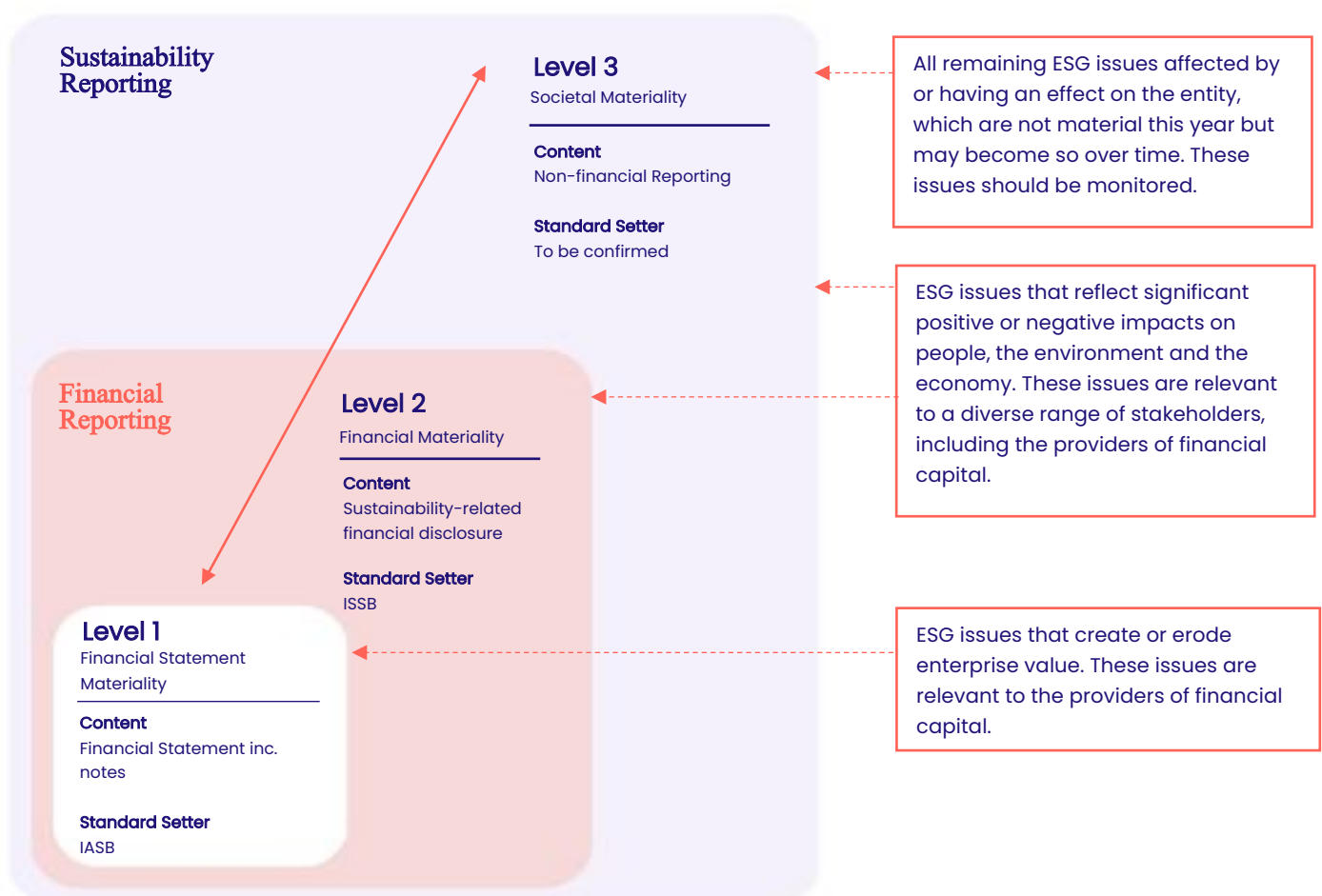
they need to demonstrate a coordinated program of action or overarching framework for managing ESG issues and their impacts on the balance sheet, economy, budget, communities and the environment.

In recognition of market participants' needs, sovereigns should develop a WoG sustainability report, rather than simply devolve to agency-level reporting. Treasuries are best placed to assume responsibility for such products given their typical responsibilities include:

- financial and non-financial reporting for the public sector
- central agency cross-sector coordination
- mandates and frameworks that govern jurisdictional financing authorities for the purposes of government borrowing and investment, and
- state-wide financial risks to sovereign balance sheets.

Treasury teams should closely collaborate with financing authorities, leveraging their capital market and investor knowledge to design and customise reporting products for their particular stakeholder audience.

Figure 1. Levels of sustainability reporting, with standard setters and materiality



Source: This graphic has been derived from Barker and Eccles (2020)⁸ and expanded with descriptions supplied by BWD to the author.

Key concepts in sustainability reporting and disclosure in the public sector context

This report uses three related but distinct concepts: Sustainability, ESG and Sustainable Finance. These terms are not specific to the public sector. The precise meaning of each is contested, as different countries and organisations use these terms inconsistently and there are few standard definitions. The ISSB is attempting to resolve this confusion, by issuing guidance in December 2022 which included a description of sustainability, adopted here with minor modification to make it more applicable to public sector entities. In this report, sustainability and ESG are used interchangeably, even though sustainability is a broader concept than ESG.

Sustainability

The ability for an organisation to sustainably maintain resources and relationships and manage its dependencies and impacts within its whole ecosystem over the short, medium and long term. Sustainability is a condition for an organisation to access over time the resources and relationships needed (such as financial, human, and natural), ensuring their proper preservation, development and regeneration, to achieve its goals.

ESG

ESG stands for environmental, social and governance factors. ESG analysis can be used to evaluate companies and issuers (sovereigns, sub-sovereigns, corporates) on how advanced they are with sustainability objectives. ESG factors had their origin in the investment industry and can be used to support sustainable investment activities. When applied to governments, they can mean the following:

- **Environmental** factors include the environmental footprint of a country/state, (e.g., contribution governments make to climate change through greenhouse gas emissions, decarbonisation), waste management, energy efficiency, biodiversity and natural capital.
- **Social** factors cover how governments interact with their employees and the communities they govern. This includes, but is not limited to worker rights, safety, diversity, education, labour relations, supply chain

standards, community relations, and human rights as well as supply chain resilience.

- **Governance** factors include the institutional stability and strength of the system of government, as well as the effectiveness of the public service in maintaining accountability and transparency.

Sustainable finance

There are narrow and broad definitions of sustainable finance. Given governments' mission to invest in public services and promote social and environmental outcomes, a broader definition is appropriate for public sector reporting. The Swiss Sustainable Finance organisation defines sustainable finance as: "Any form of financial activity integrating Environment, Social or Governance (ESG) considerations into a business or investment decision for the lasting benefit of customers, stakeholders and society at large."⁹

Sustainability reporting

Sustainability reporting is the act of communicating financial and non-financial information about ESG risks, opportunities and policies of an organisation, and the impact these policies have on both internal performance and wider society. For governments, this can mean reporting on the sustainability impacts and exposure of the government, through its direct operations, or the collective exposure of the economy and society over which a government holds sway. Sustainability reporting can include both sustainability-related financial disclosures and non-financial reporting of the reporting entity's impact on the sustainability of systems within which it operates (e.g., the planet, society, communities). These different levels of reporting are governed by different standards and sometimes target different formats for communication e.g., integrated reporting in the annual report or separately, in a dedicated sustainability report.

Sustainability disclosure

Disclosure is a narrower concept that combines identification of a sustainability impact with public reporting of its financial impact.

Conclusion and recommendations

Given the evolving state of international guidance and the transitional phase of NSW annual reporting best practice, should NSW embark on sustainability reporting while it awaits the conclusion of these consultation and guidance setting processes? If so, how should it do such reporting?

The research and discussions with experts confirm five clear themes:

- Stakeholder demand for these products is urgent and growing.
- Financial market stakeholders are increasingly seeking a whole-of-government overview of sovereign sustainability performance.
- The standard-setting process may be protracted, but there are emerging norms.
- There are potentially material implications for not signalling the importance of this issue through transparent, accountable reporting on sustainability performance.
- Emerging NSW best practice annual reporting requirements, as well as international accounting and reporting draft standards, are cohering around an expectation that reporting entities undertake sustainability disclosures on environmental as well as social and economic matters.

Accordingly, this report recommends that NSW commences sustainability reporting as soon as practicable at the WoG level and does not delay pending the finalisation of these processes. There is sufficient emerging consensus around certain norms to guide initial attempts, as well as precedent efforts at the state and territory level. Two jurisdictions have released WoG sustainability reports in the past year that provide a guide for NSW:

- Queensland released its second QSR in December 2022. This built on its inaugural QSR published in October 2021, following an initial ESG Outcomes Statement in February
- Western Australia released its first ESG Information pack in November 2021, with a mid-year update in the State Budget in May 2022.

To guide the approach in NSW, this final section sets out detailed recommendations for the NSW sustainability reporting, and considers the strengths and weaknesses of the Queensland and Western Australian reports. South Australia also produced a short Sustainability Development Statement in November 2021 with a supporting website,¹⁰ which it describes as the beginning of the South Australian Financial Authority's (SAFA) journey toward adopting best practice management and disclosure of material climate-related risk and opportunities. The seven-page statement, *South Australia's Sustainable Development Commitments*,¹¹ is partially aligned to the UN SDG's and indicates that SAFA is developing an ESG framework that will govern its debt issuance programs to provide confidence to investors of their investment in a sustainable and responsible state.

Annex A offers a suggested template for sovereigns wishing to commence WoG sustainability reporting based on the report's insights.

Recommendations

The recommendations below are targeted at the NSW Government, although they are relevant to governments in other jurisdictions, in Australia and beyond.

1) NSW Governments should not delay whole-of-government sustainability reporting and disclosure while international and domestic sustainability reporting guidance is finalised

The international guidance landscape is going through rapid consolidation and evolution, both for corporate and public sector standards. Sovereigns, including the NSW Government, should continue to monitor and contribute to these processes but should not delay sustainability reporting and disclosing sustainability-related data for priority stakeholders, chiefly capital market stakeholders, while these processes resolve. Given the substantial capability uplift that comprehensive sustainability reporting and disclosure will entail in public sectors, it is prudent to commence this process as soon as feasible and scale up maturity over time.

2) NSW Treasury should produce a whole-of-government sustainability report targeting financial market stakeholders, using the ISSB-aligned template at Annex A

Governments should leverage the role of their Treasuries as central agencies to prepare and produce a consolidated view of the sustainability impact of their public sector on their communities and economies. This should build on existing reporting products. NSW already discloses data and policy objectives on sustainability themes in a non-consolidated manner through a range of reporting products. These include statutorily required products such as the Intergenerational Report, the State of Environment Report and the GREP Whole of Government Progress Report. Building on these specialised reports, NSW should produce a consolidated, comprehensive sustainability report, supported by sequenced disclosures, aligned with key recommendations of the ISSB Exposure Drafts on sustainability-related disclosures.

Similar to the early efforts by Queensland and Western Australia to provide a WoG view on ESG issues, a NSW equivalent report should bring data on priority ESG themes into one integrated product and offer a single source of truth. It should seek, however, to go beyond the policy mapping approach adopted by these peer jurisdictions and instead move towards an outcomes-based performance report, supported by sequenced priority disclosures. This would align with the NSW Government's move to outcomes-based budgeting, and help establish a baseline against which the State can track progress over time. The ISSB-aligned template in Annex A offers a guide for how to approach the presentation of data for governments seeking to meaningfully report performance across ESG themes.

3) NSW Government should adopt a sequenced approach to sustainability reporting and disclosure, growing capability and stakeholder reach over time, while acknowledging the interconnected nature of sustainability matters

Responding to the demand of investors and ratings agencies for a holistic approach to ESG disclosure must be balanced with what is feasible in the near-term. Developing a baseline report that profiles a government across all three ESG dimensions on priority sustainability matters is a substantial task. This is best supported by a staggered approach to disclosures, for instance a “climate first” disclosure approach, followed by nature-related disclosures, and then human capital and human rights disclosures. This balances the need for a phased approach as capability is established and scaled, while aligning with investor priorities, reflected in the top priority focus (to date) on climate disclosure by the ISSB and AASB. That said, the ISSB has now acknowledged the interconnection between climate and nature, as well as a just transition, making it increasingly untenable to discuss these issues in siloed terms. Moreover, in NSW, a newly appointed Anti-Slavery Commissioner is legislatively obliged to align with the federal approach to modern slavery, which aligns with the UN Guiding Principles on Business and Human Rights (UNGP). The UNGP framework increasingly underpins investor and market expectations on the social elements of ESG. Given the relevance of these issues to the public sector, governments should embrace the turn towards integrated and comprehensive sustainability reporting, building capability to disclose across a varied range of ESG issues.

In terms of intended audience, NSW should sequence its outreach to target stakeholders using the building block approach advocated by IFAC. This report recommends targeting financial market stakeholders as a priority for whole-of-government sustainability reporting. Efforts to reach a multi-stakeholder universe of citizens, community, industry and other actors should consider more dynamic vehicles such as portals (for instance, the NSW SEED Portal,¹² which includes annually updated tools like the NSW Net Zero Emissions Dashboard tracker¹³) or leveraging existing public reporting mechanisms such as agency-level annual reports. In its *Annual Reporting Reform 2022 Discussion Paper*, NSW Treasury has proposed that public sector agencies include “Sustainability” as a content heading in their annual reports and recommended applying the TCFD Frameworks for climate-related disclosures. Stretching the focus of one product too far risks failing to meet the varied political, economic, financial and democratic needs of different stakeholders.

4) NSW Government should show leadership in sustainability and disclosure by adopting a double-materiality approach

Materiality is a crucial concept in any reporting framework. Traditional corporate-focused approaches to materiality emphasise information that is “decision-useful for the reasonable investor”. Given governments are not merely financial actors, but at core, exist to solve problems and enhance welfare for people and planet, there is a prima facie case for governments to not just report on how ESG issues effect their creditworthiness or investment attractiveness, but to account publicly for their impact on environmental, social and economic outcomes. This is so even when the target of WoG sustainability reports are primarily financial market participants since

investors may consider both financial and sustainability materiality in investment decision-making (double materiality). Figure 1 illustrates the various types of materiality that external reporting may contain for distinct stakeholder groups, and where in reporting products these disclosures occur. At minimum, the standalone WoG sustainability report should adopt a double materiality lens, where the NSW Government describes the influence of ESG factors on its performance and financial position, as well as accounts for the impact of its activities on a range of ESG issues.

5) NSW Government should release its sustainability reports with the State of the Finances report, but separate to Budget and Half Year reporting, to minimise politicisation risk

To ensure sovereign sustainability reports avoid the fate of much corporate sustainability reporting which up until recently has focused on single materiality and been separated from financial impact, governments should ensure WoG reports coincide with the release of their main audited financial products. In NSW, this is the Report of State Finances (Total State Sector Accounts), typically released in October by the Treasurer for the previous financial year. This will allow investors, regulators and other market stakeholders to verify reporting outcomes in sustainability reports against the State's audited financial reports. It will also ensure a decoupling from Budget and Half Year products which will help protect sustainability reporting from politicisation risk. This is important given any politicisation of sustainability products by political actors would further exacerbate the greenwashing concerns plaguing much sustainability reporting.

***National recommendation:** To ensure consistent and comparable disclosures of sustainability-related financial information across Commonwealth, State and Territory jurisdictions, the CFFR should update the Uniform Presentation Framework¹² to recommend a common approach across all jurisdictions to the presentation of sustainability information in government reporting.*

Case-study: The Queensland vs Western Australian approach

Queensland

Queensland commenced its WoG sustainability reporting journey in 2021 with a two-step process:

1. Release of an ESG Statement, a high-level narrative document signalling Queensland's commitment to sustainability reporting and stakeholder demand for more disclosure
2. A stand-alone Sustainability Report detailing the State of Queensland's ESG commitments and outcomes that provided information on:
 - identified ESG focus areas
 - policies supporting management of the focus areas and relevant reporting data
 - public non-financial data for a broader range of relevant ESG factors.

Queensland Treasury in partnership with Treasury Corporation conducted extensive market research to identify relevant areas of interest to investors, rating agencies and other financial stakeholders. During this engagement, Queensland Government representatives were explicit with stakeholders that this was the beginning of a longer-term journey, and that the first iteration would lay the foundation for a more mature approach over time.

Stakeholders identified best practice corporate reporting, acknowledging the lack of precedent sustainability reporting for sovereigns. These initial engagements identified seven ESG focus areas for the State. The report content describes those priority ESG focus areas, and the actions the Queensland Government is taking to advance sustainable development of its communities and capture opportunities. In the absence of a mandatory sustainability reporting framework, the report was informed by the qualitative and quantitative ESG information requirements outlined in publicly available investment, reporting and rating agency frameworks, as well as emerging norms from international standard-setting processes. Datasets for ESG metrics were compiled by the Queensland Government Statistician's Office from independent sources to provide a degree of assurance.

The 2022 QSR matured this approach by aligning with the TCFD pillars, refining priority ESG themes to six issues and mapping policies to the next level of granularity in risk reporting. This report also used extensive independently verifiable data to support as metrics and

wove a narrative of accountability throughout the document. This evolved structure ensured the report is more explicitly framed as a risk management report. The retention of key themes is also critical as it shows an intention to measure progress against them in future reports, broken down into key risks and approaches associated with the sustainability standards.

Next Steps for Queensland

While the 2022 QSR represents substantial maturity since the first report, there are still areas for further improvement. A priority next step is to incorporate a materiality assessment of risks at the whole-of-state level.

Western Australia

Western Australia commenced its ESG reporting journey through development of an Information Pack targeted at investors in Western Australian Government debt with the objective to:

- clearly articulate the Western Australian Government's ESG credentials in language familiar to global investors;
- support a positive perception of the Western Australian Government's current ESG profile through improved understanding of policies and initiatives currently in place and future directions intended to support continuous improvement in ESG outcomes;
- maintain a positive attitude towards financing the WA Government through the ongoing debt issuance program and signal to the market an intention to develop an ESG labelled debt program (i.e., green or sustainability bonds) as a component of the State Government's priorities towards improving ESG outcomes, thereby providing a vehicle to finance Government funded initiatives that meet green and social bond principles.

In compiling the report, WA Treasury considered different frameworks, including the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), but found the SDGs the simplest to report against due to the high level of agency alignment and ease of interpretation by investors. At the same time, Moody's released their ESG impact scoring methodology. This helped inform the content together with other recognised ESG assessment frameworks.

Strengths

- Budget mapped onto SDGs
- ESG focus areas reflect a combination of ESG scoring criteria and ratings agency priorities
- Highly readable

Limitations

- No outcomes or performance reporting
- The layout is not as clear as Queensland
- Lacks data sets and metrics to evaluate outcomes of key areas
- Does not align easily to ISSB

Annex A. Draft sovereign sustainability reporting template

The structure of this template was designed to incorporate the following:

- Feedback on desirable features of existing state-based sustainability reporting by Queensland and Western Australia
- A double materiality approach which captures financially material issues to the government, as well as societally material issues that reflect significant positive or negative impacts on people, the environment and the economy
- Evolving norms and guidance on reporting standards for sustainability in Australia and internationally, chiefly:
 - the AASB’s support for the voluntary adoption of TCFD recommendations set out in their March 2022 position statement on Extended External Reporting (EER) released “to provide direction to ...stakeholders prior to developing and adopting a framework for EER”;¹⁵
 - the ISSB support for TCFD alignment and updated guidance on the definition of sustainability;
 - developments in the NSW public sector reporting landscape that indicate sustainability reporting will be recommended as best practice at the cluster and agency level.

STEPS:

1. Identify priority focus areas for E, S and G in consultation with financial market stakeholders.
2. For each priority focus area, report against that focus area in the TCFD-aligned format below.
3. Develop and include a whole-of-state risks table.

Suggested Template for Reporting

Below is a suggested template for reporting on ESG focus areas identified according to the process recommended above, including consultation with priority financial market stakeholders. The number of ESG focus areas for each jurisdiction will vary given different rating agency and investor priorities. As a guide, governments should anticipate reporting against approximately 10 ESG focus areas, based on existing reports by Queensland (seven focus areas), WA (11 focus areas) and SA (nine focus areas). Longer term, to ensure comparability across jurisdictions, this Report recommends CFFR update the Uniform Presentation Framework identifying a baseline set of ESG focus areas that all jurisdictions should report against.

This proposed scope takes into account the TCFD framework, the ISSB’s draft international sustainability Standards Board’s, the World Bank’s proposed template for Sovereign Climate and Nature Risk and Opportunities Reporting Framework and feedback from reporting sub-national sovereigns. The structure also reflects the NSW commitment to Outcomes Budgeting by ensuring a clear link on ESG and sustainability action back to State-level outcomes.

Proposed template for Whole-of-Government Sustainability/ESG Reporting

ESG FOCUS AREA			
Category	Content	Policy Responses	Outcomes
Introduction	Describe the thematic area, setting out potential impacts of that risk on the State over short, medium and long-term horizons	<ul style="list-style-type: none"> Describe key policy initiatives pursued by the State, including roadmaps, action plans, strategies and legislated reforms Identify funding commitments through Budget Describe interjurisdictional or international collaborative efforts that support policy objectives. 	<ul style="list-style-type: none"> Describe the overall performance of the sovereign on this risk, identifying a Key Performance Indicator Where outcomes budgeting is used as a framework, cross-refer to cluster level outcomes Cross refer to relevant metrics
Governance	<ul style="list-style-type: none"> Describe the sovereign's governance systems around identifying the relevant ESG risks and opportunities Identify risk owners and accountable governance bodies Identify relevant legal authority under which accountable bodies/executives can take decisions 		
Strategy	<ul style="list-style-type: none"> Describe the sovereign's risks and opportunities related to the particular ESG issue over different time horizons Identify overarching frameworks and publicly released strategies Identify policy champions/ demonstrate supporting investment through budgets 		
Risk Management	<ul style="list-style-type: none"> Describe the processes used by the sovereign to identify, assess and manage the relevant ESG risk and opportunities Describe risk ownership for that risk/ opportunity within the public sector e.g. accountable ministers, bodies, executives and cross refer to governance discussion Where a Whole-of-State risks table has been completed, identify the residual risk rating on this issue List monitored responses to any relevant audit recommendations on this ESG risk 		
Metrics and Targets	<ul style="list-style-type: none"> Disclosure of key metrics, outcome indicators and targets used by the sovereign to assess ESG risks and opportunities Rationale for exclusion of certain standard metrics and targets on a particular issue Inclusion of independently verifiable datasets and metrics wherever possible Map against relevant international sustainability framework targets. E.g. TCFD, SDG 		
Next Steps	<ul style="list-style-type: none"> Flag priority short-term actions 		

Annex B. Experts consulted

During this project, the fellow consulted a range of senior executives from NSW Government agencies, as well as peer government officials, standard-setters and academic experts in sustainability. The author is grateful for the contributions of the following experts:

James Atkinson

Director, Fiscal Strategy, NSW Treasury

Stewart Brentnall

*Chief Investment Officer,
NSW Treasury Corporation*

Alexis Cheang

*Head of Investment Stewardship,
NSW Treasury Corporation*

James Cockayne

NSW Anti-Slavery Commissioner

Greg Hall

*Principal Accountant,
Accounting Policy and Advisory,
Queensland Treasury*

Siobhan Hammond

*Sustainability Reporting Project Lead,
Australian Accounting Standards Board (AASB)*

Luke Heilbuth

CEO, BWD

Cristien Hickey

*Director, Climate Change and
Sustainability Policy Branch
Office of Energy and Climate Change,
NSW Treasury*

Richard MacKenzie

*Head of Strategy
Western Australia Treasury Corporation*

Karen McWilliams

*Business Reform Leader, Chartered Accountants
Australia and New Zealand*

Sean Osborn

*Director, Accounting Policy and Legislation,
NSW Treasury;
Australian Accounting Standards Board Member*

Katherine Palmer

*Executive Director, Strategic Balance Sheet
Management, NSW Treasury*

Aleksandra Simic

*Director, Office of Social Impact Investment (OSII),
NSW Treasury*

Antony Sprigg

*Sustainable Finance Special Advisor, NSW
Treasury;
Australian Sustainable Finance Institute Technical
Advisory Group*

Jeanne Vandenbroek

*Director, Financial Management Legislation, Policy
and Administration, NSW Treasury*

Alison Weaver

Director, Sustainable Finance, NSW Treasury

Lachlan Whitta

Manager, Balance Sheet, Queensland Treasury

Rebecca Wigglesworth

*Principal Advisor
South Australia Government Financing Authority*

Nick Wood

Director, Long-Term Modelling, NSW Treasury

List of Abbreviations

Abbreviation	Full Term
AASB	Australian Accounting Standards Board
ACCC	Australian Competition and Consumer Commission
ASFI	Australian Sustainable Finance Initiative
AUASB	Auditing and Assurance Standards Board
CFFR	Council for Federal Financial Relations
ESG	Environmental, Social and Governance
FRC	Financial Reporting Council
GREP	Government Resource Efficiency Policy
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IPSASB	International Public Sector Accounting Board
ISSB	International Sustainability Standards Board
NSW	New South Wales
QSR	Queensland Sustainability Report
SASB	Sustainability Accounting Standards Board
SBP	Sustainability Bond Program
SDG	[United Nations] Sustainable Development Goals
TCFD	Taskforce on Climate Related Financial Disclosures
TCorp	NSW Treasury Corporation
Treasury	NSW Treasury
UN	United Nations
UNGP	UN Guiding Principles on Business and Human Rights
UN SDG	United Nations Sustainable Development Goals
UK	United Kingdom
WoG	Whole-of-Government
WoS	Whole-of-State

Endnotes

- ¹ Robert G. Eccles, “2020: The Year the Narrative Changed For Sustainability Reporting”, Forbes, 6 January 2021, <https://www.forbes.com/sites/bobeccles/2021/01/06/2020-the-year-the-narrative-changed-for-sustainability-reporting/?sh=76556249394b>
- ² The term “government” is used throughout interchangeably with “sovereign” or “public sector”. It is intended to cover both national and sub-national levels of government distinct from the approach of ratings agencies.
- ³ IPSASB, *Advancing Public Sector Sustainability Reporting*, Consultation Paper, May 2022, p. 10, <https://www.ifac.org/system/files/publications/files/IPSASB-Sustainability-Reporting-CP.pdf>
- ⁴ Kevin Dancey, “Professional Accountants Leading Reporting and Assurance on Sustainability”, International Federation of Accountants (IFAC), 26 May 2021, <https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/professional-accountants-leading-reporting-and-assurance-sustainability>
- ⁵ Australian Government, AASB, Sustainability Reporting Project – Staff Paper, 2 May 2022, paragraphs 11-14, https://www.aasb.gov.au/media/mcwiiieg/06-2-0_sp_sr_projectplan_m187_pp.pdf
- ⁶ AASB (2022), ED321 Request for Comment on ISSB [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2 *Climate-related Disclosures*, p.iv, at <https://www.aasb.gov.au/admin/file/content105/c9/ACCED321-04-21.pdf>
- ⁷ IFRS (2022), *ISSB describes the concept of sustainability and its articulation with financial value creation, and announces plans to advance work on natural ecosystems and just transition*, 14 Dec 2022, <https://www.ifrs.org/news-and-events/news/2022/12/issb-describes-the-concept-of-sustainability/>
- ⁸ Richard Barker and Robert Eccles, Comment Letter in response to the Consultation Paper on Sustainability Reporting, 31 December 2020, p. 4, https://eifrs.ifrs.org/eifrs/comment_letters/570/570_27802_RichardBarkerRichardBarkerBobEccles_0_IFRS_QuestionsforconsultationBarkerandEccles31Dec2020.pdf
- ⁹ Swiss Sustainable Finance, “What is Sustainable Finance”, <https://www.sustainablefinance.ch/en/what-is-sustainable-finance-content---1--1055.html> (accessed 17 September 2022).
- ¹⁰ See <https://www.safa.sa.gov.au/environmental-s-governance> (accessed 20 December 2022).
- ¹¹ South Australian Government Financing Authority, *South Australia’s Sustainable Development Commitments*, July 2021, <https://www.safa.sa.gov.au/documents/treasury-services/96718-SAFA-SAs-Sustainable-Development-Commitments-July-2021-FINAL.pdf>
- ¹² The Sharing and Enabling Environmental Data (SEED) is a whole of government data repository for all NSW environment data. See <https://www.environment.nsw.gov.au/research-and-publications/seed-data-portal>
- ¹³ See <https://www.seed.nsw.gov.au/net-zero-emissions-dashboard-> (accessed 20 December 2022)
- ¹⁴ CFFR, Uniform Presentation Framework – February 2019, at https://treasury.gov.au/sites/default/files/2019-06/190618_Uniform_Presentation_Framework_2.pdf
- ¹⁵ Australian Government, AASB, “AASB Position Statement: Extended External Reporting Framework”, March 2022, https://www.aasb.gov.au/media/vplbo3kx/positionstatement_eer_framework_03-22.pdf

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Level 1, 60 Martin Place Sydney
NSW 2000 Australia

E info@appi.org.au | **W** appi.org.au

